



**City of Santa Barbara**  
Airport Department

**DATE:** June 8, 2011  
**TO:** Airport Commission  
**FROM:** Karen Ramsdell, Airport Director  
**SUBJECT:** FY2012 Airport Commercial/Industrial Lease Rates

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**RECOMMENDATION:** That Airport Commission approve the proposed Fiscal Year 2012 Commercial/Industrial Rental Rates for land and buildings at the Airport, effective July 1, 2011.

**DISCUSSION:**

Background

The Business & Property Management Program is charged with maintaining the Airport's self-sufficiency and strong financial position by prudent fiscal management of its fixed assets.

This Program generates almost all of the revenue for the Airport Department. One of its key objectives for the Fiscal Year 2011 was to maintain annual lease revenue at the budget target of \$3,700,000. The Program is on target to reach this goal.

The Business & Property Division currently manages 325,702 square feet of buildings and 4,860,603 square feet of land, including 126 tenants and 141 agreements, not including taxicabs. These tenants include:

- Leases and concession agreements associated with the operation of commercial air service (airlines, rental cars, restaurant, gift shop, TSA, shuttle services, parking, ATM machine etc.)
- General aviation agreements (FBOs, T-hangars, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.)
- Commercial/Industrial leases (offices, research & development, light industrial and storage spaces).

Current Occupancy Rates

The current average occupancy rate for land for 2011 is 98.3%, an increase of .5% from the 2010 average of 97.8%. Coincidentally, the 2011 occupancy rate for buildings also averaged 98.3%, an increase of one-half of one percent from the 2010 rate of 97.8%.

### Marketing of Airport Properties

Traditionally, most potential tenants learned of Airport vacancies by word of mouth, Santa Barbara City TV, or the Airport website flysba.com. The Airport has also posted signs in several visible locations. The posting of the signs displaying the Administration phone number has resulted in an increase in inquiries regarding vacant properties.

### Effects of the Current State of the Economy

The current economic recession continues to affect Airport tenants. The Airport is still seeing tenants consolidating their operations and requesting some form of rent relief. The number of delinquent tenants has decreased slightly from FY2011. At this time, three delinquent tenants are on payment plans and are making regular payments to address their delinquencies. Two tenants pay after the 15<sup>th</sup> of the month, but are not net 30. Two former tenants have been sent to collections, including the Chrysler dealership.

### CPI Adjustments

Historically, Airport leases call for a minimum 3% maximum 8% annual CPI increase based upon the monthly index published by the Bureau of Labor Statistics for the Los Angeles-Riverside-Orange County area.

The average CPI adjustment for the past ten years was 2.45%. It averaged 1.84% for the last five years. From January to December 2010 the average was 1.2%.

On July 21, 2010, the Airport Commission approved a recommendation by staff that month-to-month tenants receive a 1.5% rental increase effective September 1, 2010 and expiring August 30, 2011. Similarly, existing tenants whose leases expired were offered new leases at a 1.5% rental increase, with a rental adjustment clause reverting to a minimum 3% maximum 8% adjustment in year two.

### Effects of the 1.5% Increase

A total of 54 tenants will benefit from the 1.5% rental adjustment between September 1, 2010 and August 31, 2011. Lost revenue to the Airport will total \$12,332. An additional seven tenants received rent reductions either through reducing their premises or because they were at the end of their term and negotiated a new lease at the current market value.

### Recovery

The UCSB Economic Forecast and other reputable sources have predicted that the economy will remain flat for the next two to three years. However, since January 2011, the CPI index has risen from a low of 1.8 to a high of 3.3.

Inasmuch as the CPI exceeded 3% in both March and April, staff is recommending a return to the minimum 3% per year rental adjustment.

### Rental Rate Analysis

The current rental market in Goleta was evaluated over a five week period in April and May. The average asking rates per square foot for Goleta properties compared to Airport properties are listed below:

	Goleta		Airport	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Office:	\$1.49	\$1.67	\$1.48	\$1.56
Industrial/R&D	\$1.14	\$1.22	\$1.06	\$1.07
Warehouse	no comps	no comps	\$ .75	\$ .71
Land	no comps	no comps	\$ .15 unpaved	\$ .15
			\$ .21 paved	\$ .21

Staff also considered quarterly commercial/industrial market reports by the Radius Group, and the area rental rates surveyed for the UCSB Economic Forecast. Based upon this information and considering the relative condition and age of Airport buildings, staff feels that the current range of rental rates is reasonable and does not recommend any changes at this time.

### Impact to the Airport

The Airport's budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport's cash flow forecast. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Any major change to rental rates could have an adverse impact to the Airport's budget.

Commercial Industrial revenues were conservatively estimated for the FY2011 budget at \$3,700,000 based upon last year's actual revenue. To date, Airport revenue is on track to exceed the Airport's goal, in spite of the modest 1.5% rental increase. As of April 2011, the Airport had collected \$3,296,706, 89% of the projected revenue. The average monthly revenue from January to April 2011 was \$329,670. When utilities and temporary permits are included, that figure becomes \$3,576,840, or 7.9% above target.

Airport staff believes that the combination of smaller spaces and reasonable rents has allowed the Airport to maintain vacancy rates of 1.5%, while the UCSB economic forecast showed Goleta offices and industrial space at 12.6% and 7.0% vacant, respectively.

### Current Rental Rates

Airport lease rates are reviewed annually and adjustments recommended when warranted. The last adjustment to the rental rates was July 1, 2008.

***Buildings:***

Office	\$1.35 to \$1.85/ square foot / month
Industrial / R & D/ Shop / Assembly	\$.95 to \$1.50/square foot / month
Storage / Warehouse	\$.68 to \$1.00/ square foot / month
Container Storage	\$.40 / square foot / month

***Land:*** \$1.14 to \$1.37/ square foot / month

**Parking Spaces:** \$14.00/space/month

*\*Building rates vary according to location, condition, intended use and improvements by Airport and Tenant. Land rates vary based upon improvements such as pavements, fencing and lighting.*

**Recommendation**

Based upon the comparables in the Goleta area, the prevailing economic climate, and the confidence that the current caps on rental rates will be sufficient to maintain Airport properties at market rate, Airport staff recommends that the Airport maintain the lease rates at current levels for FY2012.

**PREPARED BY:** Business & Property Division